

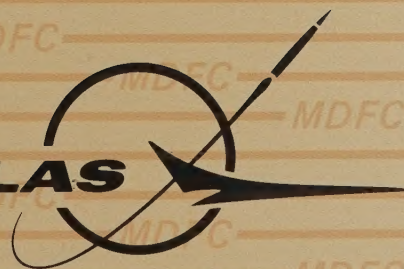
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1969

ANNUAL REPORT

31 DECEMBER 1969

MCDONNELL DOUGLAS



FINANCE CORPORATION

MANAGEMENT

DAVID S. LEWIS, Chairman
 JAMES T. MCMILLAN, President
 JOHN F. MCDONNELL, Vice President
 C. CLAY NOAH, Vice President
 DAVID E. SEDGWICK, Vice President
 JOHN H. GENTLING, Director-Customer Financing Service
 SIDNEY J. GRIFFITH, Treasurer and Secretary
 THOMAS J. LAWLOR, JR., Controller
 GEORGE M. ROSEN, Chief Counsel



DAVID S. LEWIS

BOARD OF DIRECTORS

DAVID S. LEWIS, Chairman, McDonnell Douglas Finance Corporation,
 President and Chief Operating Officer, McDonnell Douglas Corporation
 JOHN D. LOCKTON, retired Vice President and Treasurer,
 General Electric Company, and retired Vice Chairman of the Board,
 General Electric Credit Corporation
 JAMES S. MCDONNELL, Chairman and Chief Executive Officer,
 McDonnell Douglas Corporation
 JACKSON R. MCGOWEN, President and Chief Operating Officer,
 Douglas Aircraft Company
 JAMES T. MCMILLAN, President, McDonnell Douglas Finance Corporation,
 Corporate Vice President, McDonnell Douglas Corporation
 DOLOR P. MURRAY, Corporate Vice President-Fiscal,
 McDonnell Douglas Corporation

HIGHLIGHTS

YEAR ENDED 31 DECEMBER 1969

Operating income	\$ 26,210,205
Net earnings	\$ 3,435,696
Total assets on 31 December 1969	\$361,754,212
Shareholder's equity on 31 December 1969	\$ 84,025,384
Receivables balance on 31 December 1969	\$339,011,230
Average remaining life of receivables on 31 December 1969	4.9 Years



JAMES T. MCMILLAN



JOHN F. MCDONNELL



C. CLAY NOAH



DAVID E. SEDGWICK

On 1 November 1968, the McDonnell Douglas Finance Corporation (MDFC) was established for the initial purpose of helping provide satisfactory financing for the commercial jet aircraft produced by the Douglas Aircraft Company (DAC) division of McDonnell Douglas Corporation (MDC). A longer term objective is for MDFC to establish itself as a thriving, profit-generating finance business and thus be able to provide even more flexibility in financing MDC's spectrum of products.

Profit for 1969, the first full fiscal year of operations for the finance corporation, was \$3,435,696 after provision for Federal and state income taxes. At the close of the year, total assets were \$361,754,212 as compared to \$179,642,673 at the end of 1968.

During 1969, MDFC devoted a major part of its effort to working with airline managements and with financial institutions in order to assist the airlines in arranging financing for the commercial jet aircraft sold by DAC. In this activity, MDFC added substantially to its portfolio of airline notes and entered into long-term leases with various domestic airlines for seven Super 60 Series DC-8s and seven DC-9s. Moreover, MDFC teamed with Greyhound Leasing and Financial Corporation to lease jointly two DC-8-63CFs to Airlift International, Inc. and utilized a similar arrangement with C.I.T. Corporation to lease two DC-9s to Southern Airways, Inc. These joint leasing arrangements have proven effective in providing airlines with satisfactory financing in the tight money market.

Worldwide scarcity of funds has caused the availability of financing to be an important item for airlines in considering the purchase of new aircraft. As a result, close coordination is often necessary among MDFC,

DAC and airline financial managements. This has been facilitated by the move in June 1969 of MDFC headquarters from Santa Monica to Long Beach where DAC headquarters are also located.

During the year, the corporation also progressed toward its long-term goal of attaining an independent identity. MDFC's revolving credit agreement of \$200 million with 10 U.S. banks was amended to extend it to 31 December 1970 and to remove the previous requirement for a guarantee of credit by the parent corporation. Under the agreement MDFC has an option to convert the borrowings into a term loan repayable through 30 June 1976.

MDFC began borrowing in the commercial paper market by issuing its own short-term unsecured notes through the facilities of Lehman Commercial Paper, Inc. Since September 1969, MDFC has maintained an outstanding amount of approximately \$15 million of commercial paper. As the MDFC name becomes more widely known, it is anticipated that the company will make greater use of this flexible debt instrument.

Since its inception, MDFC has built an independent capability in the important functions of customer service, credit analysis, financial analysis and legal counsel, all specializing in the field of equipment financing.

D. S. Lewis

Chairman of the Board

J. T. McMillan

President

3 March 1970

BALANCE SHEET

	31 DECEMBER 1969	31 DECEMBER 1968
ASSETS		
Notes and leases receivable - Note A		
Notes receivable - less discount:		
1969, \$35,341,787; 1968, \$28,320,150	\$238,838,538	\$169,707,839
Lease accounts receivable - less unearned		
rental income: 1969, \$63,871,079; 1968, \$2,880,356..	96,956,353	6,495,140
Accrued interest receivable	3,876,128	1,810,481
	<u>\$339,671,019</u>	<u>\$178,013,460</u>
Less allowance for doubtful receivables	659,789	- 0 -
	<u>\$339,011,230</u>	<u>\$178,013,460</u>
Cash	1,591,713	727,000
Residual value - leased aircraft	21,091,230	902,213
Other assets	60,039	- 0 -
	<u><u>\$361,754,212</u></u>	<u><u>\$179,642,673</u></u>
 LIABILITIES AND SHAREHOLDER'S EQUITY		
Due to McDonnell Douglas Corporation:		
Accounts payable	\$ 1,827,315	\$ 76,478
Senior notes payable - Note B	36,600,000	47,924,447
Subordinated notes payable - Note B	60,000,000	50,000,000
Less income tax credits due from parent company-Note C.	(19,995,404)	(231,598)
	<u>\$ 78,431,911</u>	<u>\$ 97,769,327</u>
Notes payable to banks - Note B	158,000,000	- 0 -
Notes payable - short-term commercial paper	15,000,000	- 0 -
Accounts payable and accrued expenses	145,960	130,648
Refundable deposits on leases	1,539,394	242,470
Deferred federal and state taxes on income - Note C	19,148,248	501,894
Deferred investment tax credit - Note C	5,463,315	408,646
TOTAL LIABILITIES	<u>\$277,728,828</u>	<u>\$ 99,052,985</u>
Shareholder's equity - Notes A and B		
Common Stock - par value \$100 per share:		
100,000 shares authorized		
50,000 shares issued and outstanding	\$ 5,000,000	\$ 5,000,000
Capital in excess of par value	75,000,000	75,000,000
Earnings retained for growth	4,025,384	589,688
	<u>\$ 84,025,384</u>	<u>\$ 80,589,688</u>
Commitments - Note D		
	<u><u>\$361,754,212</u></u>	<u><u>\$179,642,673</u></u>

See notes to financial statements.

STATEMENT OF EARNINGS AND EARNINGS RETAINED FOR GROWTH

	YEAR ENDED 31 DECEMBER 1969	TWO MONTHS ENDED 31 DECEMBER 1968
Operating income:		
Interest income	\$16,062,656	\$1,876,592
Amortization of discount on notes receivable - Note A	6,716,758	925,460
Income from leases - Note A	<u>3,430,791</u>	<u>40,559</u>
	\$26,210,205	\$2,842,611
Costs and expenses:		
Provision for doubtful receivables	\$ 659,789	\$ — 0 —
General and administrative expenses	977,242	139,236
Interest and debt expense	<u>18,035,478</u>	<u>1,407,787</u>
	<u>\$19,672,509</u>	<u>\$1,547,023</u>
EARNINGS BEFORE INCOME TAXES	\$ 6,537,696	\$1,295,588
Provision for federal and state taxes on income - Note C	<u>3,102,000</u>	<u>705,900</u>
NET EARNINGS	\$ 3,435,696	\$ 589,688
Earnings retained for growth at beginning of period	<u>589,688</u>	<u>— 0 —</u>
EARNINGS RETAINED FOR GROWTH AT END OF PERIOD	<u><u>\$ 4,025,384</u></u>	<u><u>\$ 589,688</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 1969

NOTE A - NOTES AND LEASES RECEIVABLE

McDonnell Douglas Finance Corporation, a wholly owned subsidiary of McDonnell Douglas Corporation, commenced operation as of 1 November 1968. Since that time, the Corporation acquired from its parent company certain airline notes receivable in exchange for 50,000 shares of Common Stock, plus notes payable and cash. The notes receivable, which arose in the course of marketing commercial aircraft, were acquired at an intercompany discount of \$42,984,005, which is being amortized over the lives of the respective notes. The notes, some of which have collection rights subordinated to other creditors, bear interest rates from 5% to 9-1/2%.

The Corporation's aircraft leases are accounted for under the financing method and earned income therefrom is recognized on a declining basis over the lives of the related leases. General and administrative expenses incurred in consummating and administering leases are charged to operations when incurred. Residual values were estimated to be \$21,091,230 at the end of lease terms on leased aircraft having an original cost of \$118,678,757.

Installments due within one year aggregated \$66,429,924 at 31 December 1969 and \$21,515,256 at 31 December 1968. At 31 December 1969, long-term receivables amounted to \$308,582,882 and (although some were obligations of financing institutions) were related to seventeen domestic carriers in the amount of \$209,647,289, and fifteen foreign carriers, \$98,935,593.

NOTE B - NOTES PAYABLE AND CREDIT AGREEMENTS

Under a Revolving Credit Agreement with a group of banks, the Corporation can borrow through 31 December 1970 a maximum of \$200,000,000 (limited to specified ratios of the book values of certain assets) on notes of 90 days or less with interest at the prime rate in effect at the date of each borrowing. At the option of the Corporation, these notes are convertible at 31 December 1970 into term notes payable in equal quarterly installments of principal and interest through 30 June 1976. The agreement re-

quires the Corporation to maintain a minimum net worth, restricts indebtedness, and limits cash dividends and other distributions to 75% of the net income of the Corporation to the date of declaration for each fiscal year on a noncumulative basis.

At 31 December 1969, the Corporation had borrowed \$36,600,000 from the parent company on senior notes which are payable on demand and bear interest at a rate which is periodically adjustable.

The subordinated notes payable to the parent company are due on demand but are subordinated, in the event of default, to the prior payment of all senior debt. These notes bear interest at a rate (7.75% at 31 December 1969) which is redetermined quarterly based on current bond market rates.

NOTE C - INCOME TAXES

Federal and state taxes on income shown in the statement of earnings were computed at current tax rates on the operations reflected therein, adjusted for earned investment tax credit (\$334,562) on leased aircraft. The investment tax credit is deferred and amortized by credits to income over the original terms of leases on a declining basis corresponding to the method of reflecting income from leases.

The amount shown as income tax credits due from parent company is equivalent to the reduction in taxes currently payable arising from the inclusion of the Corporation's operations in consolidated income tax returns to be filed for the year ended 31 December 1969. Deferred Federal and state taxes in the amount of \$18,646,354 were provided for the difference between income includable in the consolidated tax returns for 1969 and that reported for financial statement purposes.

NOTE D - COMMITMENTS

At 31 December 1969, the Corporation had offers outstanding to provide future aircraft lease financing in the amount of \$32,000,000.

INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

McDonnell Douglas Finance Corporation

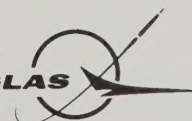
We have examined the balance sheet of McDonnell Douglas Finance Corporation as of 31 December 1969, and the related statement of earnings and earnings retained for growth for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination for the preceding period.

In our opinion, the accompanying balance sheet and statement of earnings and earnings retained for growth present fairly the financial position of McDonnell Douglas Finance Corporation at 31 December 1969, the results of operations and changes in shareholder's equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

St. Louis, Missouri
15 January 1970

Ernst & Ernst

MCDONNELL DOUGLAS



FINANCE CORPORATION

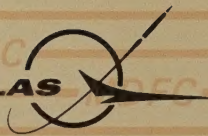
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MDFC

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